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ORE-VISION

Views and Analysis on the Economy and Precious Metals

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Gold is not going Up – Paper money is going Down

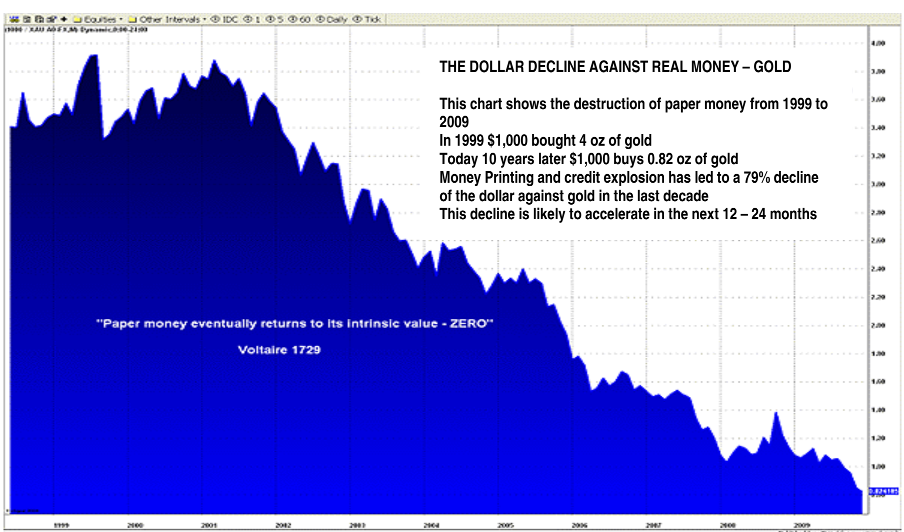
Egon von Greyerz

This month we will discuss the illusion of gold going up. We will examine the destiny of the dollar and why it will reach its intrinsic value of zero. We will also demonstrate why money printing will accelerate rapidly in the next 12-24 months.

Paper Money Collapsing against Gold

The problem with paper money is that governments can create unlimited amounts. This is what they have done throughout history and especially in the last 100 years and which has led to the total destruction of most currencies. Most people don't even understand that their government makes their money worthless. Money printing gives them the illusion of being richer whilst all they have are pieces of paper with more zeros on them. But there is one currency that governments can't print which is gold. Gold has been real money for almost 5,000 years and it is the only currency that has survived throughout history. Gold can't be printed and no government controls it. Therefore gold will, over time, always reveal governments' fraudulent actions in creating money out of thin air. And this is what we are experiencing currently. Gold is not going up. Instead gold is doing what it has always done, namely maintaining its value and purchasing power.

What we are seeing currently is the total annihilation of paper money whether it is Dollars, Pounds or Euros etc. The chart below shows the US dollar against gold. **In the last 10 years the dollar has declined by 79% against gold.** Most currencies have declined by similar percentages. So it is an illusion to believe that gold is going up when it is the value of paper money that is going down. All gold is doing is to reflect the virtually limitless printing of paper currencies. Since gold can't be printed, it is the only honest currency that exists. This is why many governments don't like gold increasing in value against their paper money since it exposes their total incompetence in running their country's economy.



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Global Financial Crisis, No Bailout Will Stop It

Mac Slavo

Sometimes, a bailout is not enough.

When Dubai World black swanned global investors last month with what amounts to be a reported $80 Billion in debt liabilities, it sent shivers down the spine of many a financial manager and stock trader. For those who were paying attention, Dubai's troubled assets were no surprise; it was simply a matter of time. Oft repeated by contrarian analysts and investors like Dr. Doom Marc Faber, Gerald Celente, Jim Rogers, and Karl Denninger, the mathematical certainty of the economic crisis would play out - eventually.

It was a year ago that the entire global financial system, spear headed by the USA, faced the real possibility of total meltdown that is if you trust the motivational fear tactics employed former

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Also Inside This Issue:

LIES, DAMNED LIES AND STATISTICS

Peter Souleles B. Com. LLB.

It was Mark Twain who said "there are three kinds of lies: lies, damned lies, and statistics." Benjamin Disraeli actually said it before Mark Twain in different words and since then many more have repeated the phrase. But even truths can be deceiving if only part of the truth is presented.

Recently I came across an article (which no doubt is doing the rounds) which presented a "groundbreaking" chart showing how gold had gone up 50 times since 1913 whereas prices had only increased by 25 times. The author then proceeded to draw the conclusion that gold is 50% overvalued. The corollary of that conclusion is also that individuals, governments and central banks are crazy not to be selling their gold at today's "inflated" prices.

I guess it was this great insight that led John Brown to sell England's pile of bullion some years ago and we all know the result of his decision. But is it true that gold is 50% overvalued?

In the 1920's you could buy a loaf of bread for around 10c for which you would now pay around $2. With gold at $20.67 in the 1920's you could buy 207 loaves with an ounce of gold whereas today you could buy around 520 loaves. So far so good for the author of that article, but is he really right?

- Unfortunately, I beg to differ for a number of reasons, the main one being that the approach is highly limited and oblivious to other more relevant factors. These include:
- The approach only looks at the relative value of the dollar and gold. To be more meaningful the question could perhaps have been, "how much gold could two comparable workers buy in 1913 and 2009 with a week's worth of wages?"
- The second error lies in forgetting that gold is also an asset and that a comparison must be made between gold and other asset classes. For

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Gold Bruised by U.S. Jobs Propaganda

Jeff Nielson

I typically keep my commentaries on precious metals and the broader economy somewhat separate, so those readers who only read my work on precious metals may not be familiar with my specific views on the monthly, fraudulent jobs reports from the Bureau of Labor Statistics.

To be succinct, they don't have the slightest connection to reality. These are not simply implausible estimates, but rather deliberate falsifications of data. The evidence for this conclusion is clear: the numbers from the weekly report on payroll lay-offs. Years of this data have produced predictable patterns between the number of weekly lay-offs and net monthly job losses.

When U.S. weekly lay-offs exceed 300,000 workers (for a total of roughly 1.3 million jobs per month), this has been the tipping point to when the U.S. begins to experience net, monthly job losses. Hiring and lay-offs move in an inverse manner to each other, not surprisingly. If lay-offs are rising, then hiring is falling (and vice versa). Thus when lay-offs reach 400,000 per week (roughly 1.8 million for the month), this means net monthly job losses must be *in excess* of 500,000 jobs. This represents an extra half-million lay-offs *plus* the greater disparity caused by the fall in hiring.

Similarly, when lay-offs exceed 500,000 per week (2.2 million lay-offs for the month), net monthly job losses must be well over **1 million** jobs per month. U.S. weekly lay-offs for November totalled roughly 2 million. This means that the official BLS number for November of only 10,000 jobs being lost isn't simply unlikely it is **theoretically impossible**.

If the U.S. had a robust "stimulus plan" (i.e. where most of the stimulus was *actually* spent creating new jobs), then perhaps a net job loss of 500,000 jobs for November could have been plausible - as the huge number of lay-offs could have been off-set to that degree. However, we don't have to rely upon the weekly job-loss numbers to refute the propaganda from the Bureau of Labor Statistics. There is simply no demand strength in the U.S. economy to have possibly completely off-set the 2 million lay-offs for November (keeping in mind that *this* number is only a partial representation of total lay-offs).

Construction is still obviously not close to a break-even point in hiring. Exports remain weak, so there is no possibility of significant job gains there. The three levels of government are experiencing their largest drops in revenues **in history**, thus obviously there are net job losses from this sector - which *led* the U.S. economy in job growth for the last decade.

On the consumer front, Black Friday retail sales were disappointing, the most recent ISM survey on the service sector showed a contraction, and U.S. inventories *continue* to shrink - so there was obviously further weakness in the domestic economy, and no possibility of a break-even month here. Putting all the propaganda aside, all that has happened in the U.S. job market over the course of this entire year is that the weekly lay-offs went from 3 million per month (as an aggregate) down to 2 million per month. This "improvement" is simply not near enough to have ended net job losses in the U.S.

Putting aside the fact that the BLS jobs number isn't even theoretically possible, the reaction in the gold market was simply bizarre. Even *if* this number was authentic, there is nothing bearish for gold about more hiring taking place in the U.S. - given that the Federal Reserve and Treasury Department have already made it clear their reckless fiscal and monetary policies will remain in place indefinitely. This has *extreme* implications from an inflation standpoint.

If the U.S. economy were no longer losing jobs, this would eliminate one of the main deflationary forces in the U.S. economy, and real strength in the jobs market would also serve to halt most of the remaining deflationary forces - apart from the crippling levels of debt of the U.S. economy.

However, as I stated in a recent commentary, the market continues to *ignore* the true state of U.S. finances (see "Treasury Department Stalls Budget Report"). In that commentary, I mentioned how the U.S. Treasury Department had chosen to *withhold* its once-a-year report, which measures the U.S. deficit using GAAP accounting principles - the same rules that all U.S. corporations are required to follow.

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Gold is not going Up – Paper money is going Down

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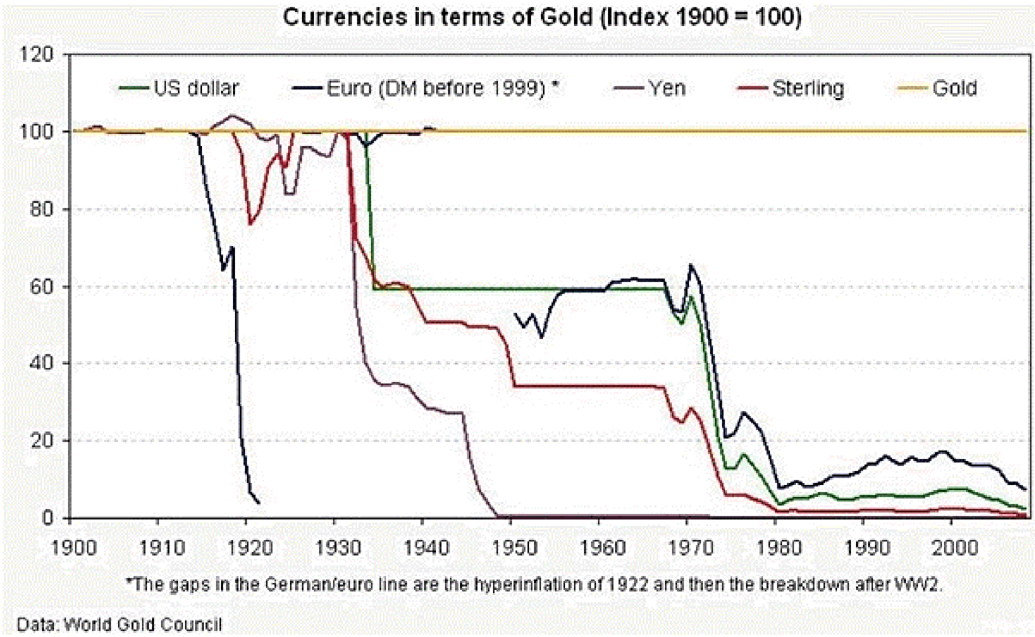
The chart above shows how the purchasing power of the dollar has declined in real money – gold – in the last 10 years. And if we take the period from 1909 to 2009 it shows the total destruction of paper money. In 1909, $1,000 bought 50 ounces of gold. Today it buys 0.83 ounces. **This means that in the last 100 years the dollar has declined by 98.3% against gold. So in real money terms the dollar is now only worth 1.7% of what it was worth a century ago.** Thus, the US government (as well as most other governments) has totally destroyed the value of real money by issuing unlimited amounts of paper money and in the next few years they will also kill off the remaining 1.7% of value to make the paper dollar reach its intrinsic value of zero. The chart below reflects various currencies fall against the dollar since from 1900 to 2004.



To talk about gold being over-extended at these levels is in our view absolute nonsense. As we will discuss later, money printing can only accelerate in the coming months and years. And when worthless pieces of paper are printed, gold will always reveal such a fraud by maintaining its value against the ever increasing supply of paper called "money".

The Real Move in Gold is Still to Come

In our view we have not seen the real move in gold yet although we have gone from $250 to $1,226. The reasons are many:

- Money printing will accelerate as government deficits increase and problems in the financial system re-emerge.
- There is a high risk of default of major financial institutions or sovereign states with unpredictable consequences for the world economy.
- The fourfold increase in gold since 1999 has taken place without the participation of most investors. It has so far been a stealth market. But this will soon change and there is likely to be a major "gold rush" in the next couple of years.
- The average fund manager, pension fund manager, asset manager or individual investor has virtually no exposure to gold today but in the next couple of years they will all invest in gold.
- The gold market will soon become primarily a physical market because no one will trust paper gold or quasi physical gold such as Comex, ETF's or unallocated gold. Nor will the market trust governments many of which might have lent out most of their gold. The last audit of the gold in Fort Knox was in 1953!
- Gold production is going down every year and is currently only $90 billion p.a. There will not be sufficient physical gold at current prices to satisfy increased demand.
- There is only $900 billion of physical gold held privately for investment purposes. This is circa 0.7% of world financial assets. A mere doubling of the allocation to gold, which is likely, would make the gold price surge. *See chart below.*
- Central banks are now net buyers of gold. Many countries which are underweight in gold such as China, India, Russia, Japan, Singapore Brazil, Korea and many more are major buyers of gold. This means that gold will be underwritten by several sovereign countries for many years to come. Central banks are not fickle investors and a policy decision to increase their gold holdings is unlikely to be reversed for a very long time.
- Although difficult to predict, the geopolitical risk in the next few years is substantial. Pakistan, Iran, Afghanistan, Al Qaeda, Middle East, Israel, acts of terrorism in the West etc. The preceding list is potentially explosive and the likelihood that something will happen in one these areas is very high. This would have a major effect on the gold price.

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Georgia To Use Federal Loans To Pay Unemployment

Dionne Walker

ATLANTA – Georgia must use $70 million in federal loans to sustain the state's dwindling unemployment insurance trust fund or it will be without money by next week to pay benefits to more than 260,000 unemployed state workers, state labor officials say.

The state will use a portion of $85 million in loan funds that federal officials have already authorized and look to a "modest increase" inunemployment insurance premiums for 15 percent of Georgia's employers to pay the money back, Labor Commissioner Michael Thurmond said Thursday.

State officials had already used $4 million of the loan money by Thursday afternoon, a U.S. Treasury Web site showed.

"The claims will be paid, no matter how many there may be," Thurmond said, at a news conference. He also announced plans for a statewide Jan. 18 job summit to brainstorm on strategies to beat back Georgia's recession.

The state has averaged more than $100 million in unemployment payouts in recent months. As of Thursday, the state had $25 million left in funds earmarked to pay unemployed Georgians.

"Clearly that is not enough to maintain (and) to allow us to continue to pay benefits," said Thurmond, who also announced that November unemployment stood at 10.2 percent, up slightly from October.

Georgia has paid out $1.6 billion in unemployment insurance benefits so far this year, compared to $950 million during all of 2008.

State businesses pay taxes to replenish the state's unemployment trust fund, largely during the first quarter. Those payments haven't dwindled, but Thurmond said they haven't kept pace with the

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Treasury Secretary Henry Paulson.

This week, the American public received word that the banks once deemed too-big-to-fail will be paying back their TARP funds, ostensibly because they are now cured of the financial contagion that threatened sudden death, economic collapse and the implementation of martial law.

In addition to Bank of America and JP Morgan Chase, we have commercial real estate powerhouse and partially owned subsidiary of Warren Buffet Enterprises, Wells Fargo, which announced it will sell $10.4 billion in stock and exit the TARP bailout. According to a company statement, the bank plans to pay back $25 billion in taxpayer funds. CEO John Stumpf, presumably also doing gods work, says "we're ready to fully repay TARP in a way that serves the interests of the U.S. taxpayer, as well as our customers, team members and investors." Management did not comment on whether the share sales totaling around $14.8 billion, when you count additional plans to raise capital, will devalue, by way of dilution, the amount of market capitalization held by shareholders.

Citibank, who also committed to repaying $20 billion in TARP funds yesterday, saw a stream of positive news throughout the media when they announced their intentions. Just 24 hours later, Bloomberg reports that Citigroup's Exit From the Bailout is Clouded by Citi Holdings Assets. It seems that CEO Vikram Pandit failed to mention that his company is "emerging from a U.S. bailout with higher capital levels and loan-loss reserves than any peer." That amount to somewhere in the area of $617 billion.

Dubai showed how investors and traders are ready to run at the first sign of trouble. As has been the case for the last nine months, however, the Dubai crisis was quickly subdued by stories of bailouts from their sister city, Abu Dhabi. And indeed, Dubai has been rescued with what amounts to be a $10 billion bailout that should help the former real estate Mecca of the Middle East make at least a few payments to keep it a float for a little bit longer. Regional investment firms will receive some of their funds, but as for non-Middle Eastern investors, the verdict is still out, though, as Abu Dhabi's rulers said, "they will not necessarily just bail out everyone across the board. They will be selective."

This seems to be the norm these days, so it's no surprise. Certain entities, for whatever reasons, are bailed out, while others suffer the collapse of their wealth for trusting in the belief that asset prices always go up forever.

As Real Estate Collapse (Wave One) in the US proved, no asset will appreciate all the time. Like Dubai, the underlying assets in America, Europe, and even China have been slowly simmering for the last year or so. And once the public gets a taste of the toxicity, there will be no stopping the panic as everyone in just about every asset class decides to run for the exit.

When the panic does start, it may be an event perceived to be too-small-to-matter, like a Dubai that exposes several larger global players, which leads to a domino effect that will echo through the entire financial markets. It may start with debt defaults in an Euro Zone country like Greece or Hungary, or maybe with commercial real estate or Wave Two of the Mortgage Meltdown in the US. It could be a geo-political event with Iran and Israel, or a terrorist attack on a Saudi Arabian pipeline.

Right now, the world is on edge. The citizens of the US, as well as the global public don't really know who to trust to tell them the truth. They are on alert, consciously or subconsciously, and if they perceive even a small threat, the fight-or-flight system will be activated.

Some say that a year ago we faced economic disaster on a massive scale. In one year, governments around the world have printed money, and done little else, except to provide daily lip service and commentary. The contagion has been lying dormant and will become an epidemic.

No bailout will stop it.

Article by:
By Mac Slavo
December 15, 2009

Gold is not going Up – Paper money is going Down

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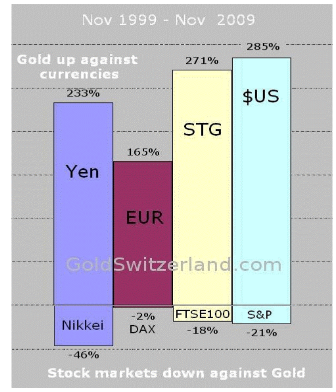
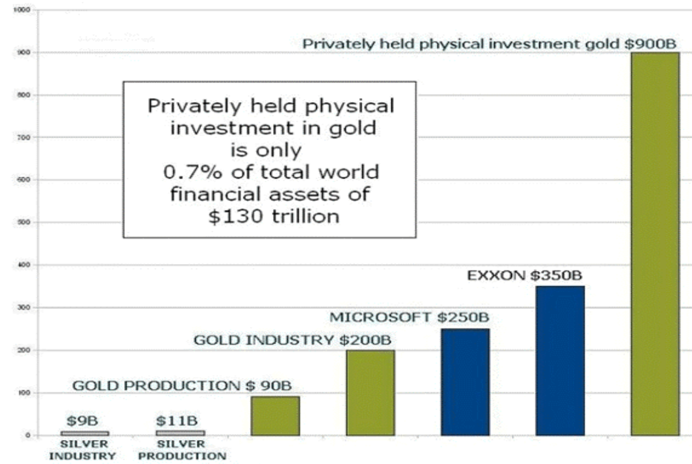


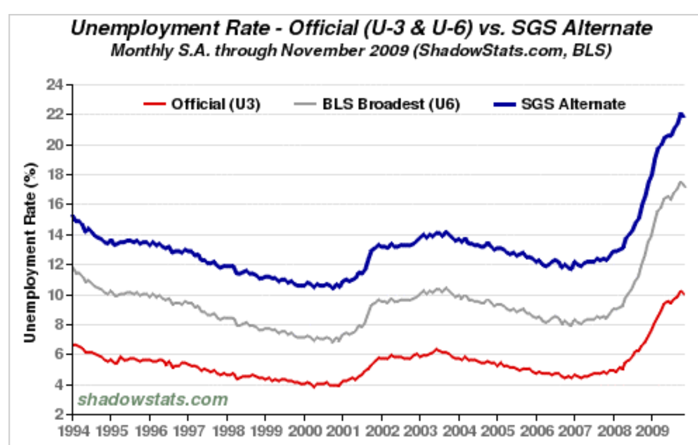
Gold has outperformed most stockmarkets
In the last ten years the Dow Jones has declined against gold by 80%. The graph to the right shows gold expressed in local currencies against the Nikkei, Dax, FTSE and S&P in the last 10 years (Nov 1999 – Nov 2009). For example gold in yen has appreciated by 233% whilst the Nikkei has fallen by 46%. The graph shows how badly most stock markets have performed measured in "real money" i.e. gold.



The Precious Metals market is minuscule
The graph to the right shows how small the gold and silver industries and markets are in relation to major US corporations and to total world financial assets. The market capitalisation of the silver industry is only $ 9 billion and of the gold industry $ 200 B whilst Microsoft is valued at $250 B and Exxon 350 B.

Both the silver and gold industries as well as the physical markets are so small that any increase in demand is likely to drive prices very substantially higher.

Quantitative Incr-easing
Governments and especially the US are making noises that money printing will soon cease. This statement is as credible as their statement about "a strong dollar policy". Let us be very clear; just as there is no chance whatsoever that they actually want a stronger dollar or that the dollar can go up. There is even less of a chance that money printing or Quantitative Easing will be withdrawn. Instead we will have what we call QI – Quantitative Incr-easing. **The Fed will in the next couple of years do what Helicopter Bernanke always promised; i.e. print unlimited amounts of worthless paper, which will complete the move of the dollar to its intrinsic value of zero. This will totally destroy the US economy, thereby creating a frightening political and social climate.**
The reasons for an acceleration of money printing are manifold:



1. Unemployment increasing
US unemployment adjusted for short- and long-term discouraged workers is now 22% as shown in the chart below. This is an absolute disaster and will have very severe ramifications for the US economy. And it is likely to get a lot worse. During the 1930s depression non-farm unemployment reached 35%. Since the real problems in the economy have not started we would expect the US unemployment to reach at least 35% in the next 2-3 years and possibly a lot higher. With over 30 million people unemployed, this will put enormous strain on the US economy with a major reduction in GDP and tax revenues and a major increase in social payments. A country that is already bankrupt today is unlikely to cope with this additional burden. Currently 36 million Americans receive food stamps, an increase of almost 3 million in the last 6 months.

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increasing payoffs — the result both of rising unemployment and a series of extensions allowing the unemployed to draw benefits for a longer period.

"It's coming in," Thurmond said. "It's just that we're paying out — you have so many unemployed people."

Data released Thursday showed Georgia firms shed 192,400 jobs between November 2008 and November 2009, with the highest losses in places like Dalton, Macon and Atlanta.

During the same period, the number of jobless workers receiving regular state unemployment benefits increased 11.5 percent.

The state received new 44,856 initial claims for unemployment benefits in November; records show the state had just 27,102 in December 2007, the official start of the recession.

Georgia joins 25 states and the Virgin Islands already borrowing more than $24 billion in federal loans to keep paying the unemployed, according to U.S. Department of Labor data.

The states can continuously borrow funds from the government, but face accruing interest starting in December 2010, Thurmond said.

And officials must still determine how to repay the loan.

Thurmond would not say how large a tax increase Georgia businesses could see, but said officials are looking to job creation to bail the state out of the worst economic downturn in years.

"You can't tax your way out of this," Thurmond said. "The solution is to spur economic growth."

Article by:
Dionne Walker
December 17, 2009

LIES, DAMNED LIES AND STATISTICS

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example, one could look at how many ounces of gold it would take to buy comparable houses between 1913 and 2009.

In an interesting article by Charles Hugh Smith (When Housing is Priced in Gold) one of the charts presented shows that the cost of housing in 2009 in gold terms was almost identical to what it was in 1988. That is, you needed 160.5 ounces in gold to buy a house in each of those two years. This is hardly evidence of gold being over-valued. In the interests of scholarly integrity I should also point out that between 1988 and 2009 a tremendous surge in housing prices resulted in 490.5 ounces of gold being needed to buy a house in 2005.

Comparisons should therefore not only include other asset classes but also graphs showing movements over a period of time. Being selective about which asset or time period to use for comparison purposes can be misleading and most un-useful.

- **The third error arises from forgetting about the financial "fatalities" of history.** I would like to remind my readers that Exxon-Mobil continues to be the only company that has a place in the Dow Jones Index since its inception. The other twenty-nine have been relegated to the dust bin of history. **Gold has been "wounded" as in the period between 1980 and 2000 but it has never been a fatality. Even then it was wounded because the world was deluded into believing that an ever-increasing number of paper dollars could create long term prosperity when in fact that 20 year period was the incubation chamber for the greatest economic cataclysm since 1929.**

  So before we condemn gold as being overvalued I would like you to ponder the long list of fatalities including, countless stocks, businesses, junk bonds, CDO's, MBS's, etc that have left many investors looking like sun bleached bones in the desert. Whilst the little man on the street has been stripped bare, he should take comfort that university foundations and charitable foundations full of directors with degrees have fared just as badly.
- Finally, I would like to appeal to your commonsense. There was a time when gold was literally scooped from rivers whereas today gold is mined from ever deepening holes and increasingly challenging circumstances due to costs, location and ore grades. On the contrary, the technology of the printing press with its digital heir, the computer, can now literally spew out dollars at the flick of a switch. So which Einstein among you will prefer the cotton fiber of the dollar to the endurance of gold?

Despite all this, I would be the first to admit that the price of gold may be less or more than it is at the moment. But gold is not bought for the moment. It is bought as insurance against future moments of madness, calamity, destruction and upheaval. History does not have a living paper winner, only gold and silver carry that title. Any premium they currently carry, or which they may carry in the future, is simply a reflection of fear and caution and exhibits at least a partial appreciation of history.

Today the Chinese are making every possible attempt to trade in their US dollars for ownership of foreign oil wells, gas fields and gold. If the dollar was a better deal they would be selling gold, but they aren't. If the Russians really wanted to sell gold, they would sell it quietly to the Chinese. There's more to what meets the eye.

Tomorrow, the day after and for as long as history has a human hand to record it, gold and silver will be one of the few anchors which will withstand the test of time over the longer run. In the short run, there will always be flashes of brilliance shown by the latest Wall Street product or darling until they hit the wall. Gold has outperformed these "darlings" infinitely but does that mean that gold is over-valued or does it mean that those that ignored gold and embraced the darlings were destroyed?

As with all investments and decisions in life, balance is not a fixed position or formula. One must duck and weave, thrust and parry as well as well as have a little bit of luck in recognition of the fact that the relative values of all assets fluctuate over time for many, many reasons. If therefore, you feel that that gold is over-valued, I suggest you buy your 520 loaves of bread today, otherwise sit tight.

Article by:
PETER SOULELES
Sydney Australia
30 October 2009

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2. Financial system still very vulnerable

The $12 trillion, which the US government has injected to stave off an implosion of the financial system and economy has only benefited the financial sector. Banks that have received these funds have not lent them on to the real economy.

All they have done is to prop up their balance sheets and pay out record bonuses. But even with this massive injection of funds into the banking system virtually all banks are still bankrupt if their assets are taken at market value:

- With the blessing of the government, banks have been allowed to value their toxic assets at totally phony amounts. Instead of valuing these assets at market value they can be valued at expected maturity value, which of course banks assume is 100%. This is just another fraudulent collusion between government and banks.
- Mortgage loans are deteriorating at a rapid rate. In October 2009 another 330,000 properties went into foreclosure. There are 7 million US homes waiting to be repossessed. Resets of interest rates on Option ARM and ALT A mortgages in 2011-12 will lead to a massive increase in foreclosures and mortgage lender losses.
- Commercial property values are declining fast and vacancy rates and defaults are surging. Values have declined by 35-50% but banks are so far not recognizing the full reduction in values. For smaller banks, which make up 90% all US banks, 74% of loans are in commercial real estate. There is $1.4 trillion to be refinanced in the next four years much of which is property, which is in negative equity or empty. It will be virtually impossible to refinance this amount.
- More derivatives are being issued by the banks. The top four US banks now have $200 trillion outstanding. A big percentage of this could not be sold at anywhere near market value.
- Over 130 US banks have failed so far in 2009. Values realized when the assets are sold are substantially below the stated values, making a mockery of the current valuation rules. Not to value at market is a crime and against all sound accounting principles. But this is of course done with the total blessing of the government since, if assets were valued at market, there would be no banking system.

3. Government Deficits will escalate

The increase in unemployment and the continued problems in the financial system are two of the major contributing factors that will make government deficits surge. But there are many other problem areas that will necessitate acceleration in money printing:

- Tax revenues are falling rapidly
- Many states in the US are already bankrupt and most others will follow.
- Cash for clunkers and tax credits to new housing buyers are just two of many schemes that the government will launch to support failing industries.
- Pension fund deficits will escalate rapidly and the government will need to subsidize pensioners.
- Insurance companies will fail and the government will need to step in.

The list of areas which will need government support is endless and the US government will inevitably print money to "save" the economy.

Zero percent interest rates and unlimited money-printing = Lunacy

To artificially set interest rates at zero and to print whatever money is needed goes against every single principle of sound money and a sound economy. Interest should be set by the market in order not to violate the laws of supply and demand. And money printing should be totally illegal. So why is it done? For governments to stay in power and bankers to prosper! Nobody else is prospering. Normal people are being conned into taking enormous debts that they will never be able to repay. And the value of their paper money is being totally destroyed as we have demonstrated above.

We have in the last few years made clear to our investors and readers that there will be very serious **consequences** arising from the actions of the government:

- **Government deficit will surge.** The current borrowings of $12 trillion are likely to increase to over $30 trillion as we have discussed in previous reports. Interest rates could then be 20% or more and the US government would have absolutely no possibility to finance the interest on this debt.
- **The dollar will collapse.** It is only due to the fact the dollar is the reserve currency of the world that the US has been able to dupe the rest of the world into accepting its worthless currency and financing its enormous debts. But this will not last much longer.
- **There will be hyperinflation.** A deflationary implosion of credit and assets financed by a credit bubble is the necessary precondition to hyperinflation. In order to counteract these deflationary factors, the government will be printing unlimited amounts of money. It is the fall of the currency that causes hyperinflation and the US will be no exception. The fall of the dollar will lead to a hyperinflationary depression in the US.
- **There will be major social and political consequences.** The economic devastation caused by the mismanagement of the economy will not only create poverty and famine but also social unrest. There will be major changes in the political system and leadership.

Protection

This report has mainly discussed the United States since what happens there has major consequences for the rest of the world. But what is likely to happen in the US is just as likely to happen in the UK and many other countries.

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Many investors now feel that the worst is over with stock markets recovering. In our January 2009 Newsletter we forecast that the stock market could have a 50% recovery.

We have now had that recovery, mainly fuelled by massive liquidity injection by the government and cost savings in corporations. In our view the resumption of the downtrend could start at any time. It is not our purpose to frighten investors or to be sensational in our views and reports. Our purpose is to warn investors of the major dangers, which make asset protection absolutely vital for financial survival in the next few years.

"THERE IS NO MEANS OF AVOIDING THE FINAL COLLAPSE OF A BOOM BROUGHT ABOUT BY CREDIT EXPANSION. THE ALTERNATIVE IS ONLY WHETHER THE CRISIS SHOULD COME SOONER AS THE RESULT OF A VOLUNTARY ABANDONMENT OF FURTHER CREDIT EXPANSION OR LATER AS A FINAL AND TOTAL CATASTROPHE OF THE CURRENCY SYSTEM INVOLVED."

Ludwig von Mises – Austrian Economist (1881- 1973)

Article by:
Egon von Greyerz
December 7, 2009
Matterhorn Asset Management AG

The Outstanding Public Debt
National Debt:
12,136,002,226,007.07
The estimated population of the United States is **308,178,947**
US citizen's share of this debt is
$39,467.91
The National Debt has continued to increase an average of
$3.85 billion per day
Business, Government and Financial Debt exceeds
$59 Trillion

Gold Bruised by U.S. Jobs Propaganda

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This annual report is **mandated by law**, and since the report has been released *every* November, the decision to hold back this report was obviously politically motivated. This is rather surprising - given that the U.S. media *hides* this report from the American people every year.

How many Americans know that the *real* deficit for 2008 was **$5.1 trillion**? How many Americans know the *real* deficit has **averaged** over **$4 trillion** per year *this entire decade*? These are the Treasury Department's own numbers.

Nonetheless, apparently the U.S. government decided that the risk was too great that someone might actually *pay attention* to this year's report. Given that government spending has soared since the last estimate, while revenues have fallen off a cliff, the only suspense in that report is how many *trillions* have been added on to last year's total. John Williams (of shadowstats.com) is estimating the *real* deficit for 2009 to total nearly **$9 trillion** (compared to the "official deficit" of $1.4 trillion).

Thus, irrespective of whether the U.S. economy lost a million jobs or gained a million jobs, or broke even; this does not change the fact that the U.S. economy is hopelessly insolvent. It is not even theoretically possible for the U.S. economy to close this budget gap - especially since the government itself is predicting that more than *half* of every new dollar of debt for the next decade will be just *interest payments* on existing debt.

As I pointed out in another recent commentary (see "The Dynamics of Debt"), the U.S. economy can be thought of as being in the same shape as a homeowner trying to make payments on a $1 million mortgage - while earning only $10,000 per year. As with that hypothetical homeowner, the question is not "if" the United States will go bankrupt, only "when".

Given what is taking place in the real world, the move by investors to *sell* gold on Friday, and buy equities from the most hopelessly insolvent economy on the planet wasn't simply unwise, but totally insane. Certainly what *should* happen next week is for Friday's move to be totally reversed. However making short-term predictions about the market is generally a silly game at the best of times. Trying to predict the movements of a market, which has severed all ties with the real world is simply a waste of time.

I sold nothing on Friday, and will be selling nothing next week - regardless of what takes place. Absolutely nothing has changed in the gold market. Should Friday's move persist for a few more days, this simply means a delay before gold's next move higher. Gold is the only real money. The U.S. is bankrupt. As I always suggest to investors: stay focused on "the big picture" and you will be fine.

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